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Invitees to Discussion on U.S.-Soviet Relations  
Monday, October 27, 1986, 2:30-5:30

Mr. Dwayne O. Andreas - Chairman of the Board and CEO, Archer  
Daniels Midland Company. Chairman, US-USSR Trade  
Council

The Honorable Willis C. Armstrong - Consultant; former Assistant  
Secretary of State

Dr. Robert Bowie - Professor, Harvard University

Mr. William B. Dale - former Deputy Managing Director, International  
Monetary Fund

Dr. Douglas Diamond - Deputy Director, Office of Soviet Analysis, CIA

Mr. Arthur T. Downey - Attorney; Sutherland, Askill & Brennan

Dr. Fritz Ermarth - NIO for the Soviet Union

Mr. Graham Fuller - Vice Chairman, National Intelligence Council

Mr. James H. Giffen - Chairman and President, The Mercator  
Corporation. President, US-USSR Trade Council

Mr. Dale Good - Special Assistant to the President, AFL-CIO.

Dr. Lincoln Gordon - Guest Scholar, The Brookings Institution

Dr. John Gray - President, ERC International and Chairman, IEA

Dr. John Hardt - Associate Director, Congressional Research Service

Dr. Deane Hoffman - NIO for Economics, Central Intelligence Agency

The Honorable Robert Hormats - Partner; Goldman, Sachs & Company

General Frank Horton - Chairman, National Intelligence Council

Dr. Kent Hughes - House Committee on Foreign Affairs

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The Honorable Kempton Jenkins - Corporate Vice President, ARMCO Inc.

The Honorable U. Alexis Johnson - former Under Secretary of State, Chief,  
U.S. Delegation to SALT

The Honorable Abraham Katz - President, U.S. Council for International  
Business

Mr. R. Jeffrey Kelleher - W. Alton Jones Foundation

Dr. George Kolt - Director of European Analysis, CIA

The Honorable John M. Leddy - former Assistant Secretary of State and the  
Treasury

Mr. Kenneth Myers - Deputy Staff Director, Committee on Foreign Relations

Mr. Spencer Oliver - House Committee on Foreign Affairs

Dr. Marvin Ott - Select Committee on Intelligence, U.S. Senate

The Honorable Jacques J. Reinstein - former Minister for Economic Affairs,  
U.S. Embassy in Paris

Lt. General Brent Scowcroft - Vice Chairman; Kissinger Associates

The Honorable Helmut Sonnenfeldt - Guest Scholar, The Brookings  
Institution

Dr. Timothy W. Stanley - Chairman of the Board, The International Economic  
Policy Association

The Honorable Walter J. Stoessel, Jr. - former Ambassador to USSR  
and the Federal Republic of Germany

The Honorable Leonard Sullivan, Jr. - Consultant, System Planning Corporation

Mr. C. William Verity, Jr. - former Chairman, ARMCO Steel Corporation.  
Former Chairman, US-USSR Trade Council.

The Honorable R. James Woolsey - Partner, Shea & Gardner and Delegate-at-  
Large, U.S.-Soviet Arms Talks, Geneva

Dr. Sydney Zabłudof - Central Intelligence Agency

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October 7, 1986

Dr. Deane Hoffman  
CIA Headquarters  
Washington, D. C. 20505

Dear Dr. Hoffman:

I would like to invite you to participate in an informal discussion of a recent development in U.S.-Soviet economic relations that may have some potential significance.

In effect, the Soviets have proposed to those U. S. corporations who are members of the U.S.-USSR Trade Council that the U. S. private sector develop a significant long-term stake in the future of the Soviet economy. The U. S. corporate members of the U.S.-USSR Trade Council are currently assessing the potential commercial interest in responding to the Gorbachev initiative. We here at the Council would like to explore a concomitant assessment of the U. S. national security considerations.

James Giffen, U. S. President of the U.S.-USSR Trade Council, has reported to us on steps being taken under General Secretary Gorbachev's personal direction to initiate joint ventures with U. S. (and other) commercial and industrial firms. The Politburo on August 15 and the Council of Ministers on August 19 approved Gorbachev's proposal to revise the Soviet constitutional and legislative provisions regarding foreign direct investment, ownership and profit--in order to elicit U. S., Western European and Japanese direct investment in joint ventures in the Soviet Union, Western management training, Western quality control, and enhanced trade. These "revolutionary changes" permit the repatriation of profits by Western investors, world market pricing to joint ventures of the factors of production, hard currency transactions, 49% foreign ownership, and "disproportionate profitability" over 49% for Western corporations contributing more than 49% of the factors of production.

In short, Gorbachev has engineered Politburo approval for reforming the Soviet economy by fundamentally restructuring the management of Soviet foreign economic relations in order to import Western ownership, management, capital, technology, training and marketing. Enclosed is the draft of a letter from

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-2-

October 7, 1986

Jim Giffen to the U. S. membership of the U.S.-USSR Trade Council, providing further details on this development.

We plan to convene a few of the Council's key Directors particularly knowledgeable about U.S.-Soviet relations, together with a small number of analysts and Sovietologists from the intelligence community and the Congress, for a briefing and off-the-record discussion of the proposed changes in the management of Soviet international economic relations. We will meet in the ground floor conference room of the Atlantic Council on Monday, October 27, 1986 promptly from 2:30 p.m. to about 5:00 p.m. We very much hope that you will be able to join us.

Enclosed is a form to facilitate your prompt response.

Sincerely,

  
George M. Seignious II

2 enclosures.

**Response Form**

I will \_\_\_\_\_ will not \_\_\_\_\_ be able to attend meeting in Atlantic Council

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Please return this form to Elizabeth Lee at the Atlantic Council.

Name \_\_\_\_\_

September 29, 1986

DRAFT

Dear Mr. \_\_\_\_\_,

During the week of September 14, 1986, Dimitri Solovikh and I visited Moscow to meet with various Soviet government officials including representatives from the Central Committee of the CPSU, GOSPLAN, the GKNT, GOSAGROPROM, the Ministry of Foreign Affairs, the Ministry of Foreign Trade, the USSR Chamber of Commerce and the Institute For the Study of the United States and Canada.

During the visit we spent a good deal of time with First Deputy Minister Malkevich from the Ministry of Foreign Trade and we were informed of the reforms in Soviet foreign economic relations which have recently been approved and which we notified you of last week.

Mr. Malkevich told us that "In accordance with the directives of the 27th Congress of the CPSU, a decision has been made to take measures to achieve a fundamental restructuring of the management of Soviet foreign economic relations. These measures are to become an inseparable part of the larger work being conducted in the Soviet Union to improve the management of the national economy."

What basically has happened is that on August 15, 1986, the Politburo of the Central Committee of the CPSU passed a resolution to authorize the reorganization of the foreign economic relations of the Soviet Union. On August 19, 1986 the Presidium of the Council of Ministers passed a decree which formally authorized the reorganization of Soviet organizations involved in foreign economic relations and the restructuring of foreign trade practices and procedures.

The decree specifically authorized:

- . The centralization and coordination of foreign economic policy
- . Decentralization of the execution of foreign economic policy and,
- . Authorization for Soviet organizations dealing in Soviet foreign economic relations to enter into joint ventures.

Mr. Malkevich told us that "In keeping with the goal of improving management of the foreign economic system and raising the level of coordination in the work of ministries and other organizations conducting trade and economic, financial, scientific and technical relations with foreign countries, a new permanent organ of the Council of Ministers of the USSR has been created - the Foreign Economic Relations Commission of the Council of Ministers of the the USSR." This new "super committee" was formed during the week of September 8, 1986, is located in Moscow and reports directly to Prime Minister Ryzhkov, Chairman of the Council of Ministers.

The function of the Commission is to improve the management of foreign economic activities by:

- . performing strategic planning for all Soviet foreign economic relations;
- . coordinating foreign economic activities of all Soviet organizations including those involved in tourism, culture, transportation, insurance, banking and, of course, trade;
- . evaluating large economic projects;
- . overseeing foreign economic trade legislation including legislation on investments, taxation, joint ventures, etc.

The Commission will meet regularly and will consist of 12 members plus a small staff.

At the same time, certain changes also occurred within the Ministry of Foreign Affairs and the Ministry of Foreign Trade.

The International Economic Organizations Department was reorganized during the summer of 1986 in recognition of the growing importance of foreign economic relations. It was strengthened with the addition of Mr. Ivan D. Ivanov, formerly Deputy Director of the Institute of World Economy and International Relations (IMEMO) who became Chief of the department.

The Ministry of Foreign Trade has been substantially reorganized in recent months and changes will continue. Only five ministers in the Ministry remain from one year ago, Messrs. Komarov, Malkevich, Ivanov, Osipov and Smelyakov. Mr. Malkevich, of course, has been named 1st Deputy Minister, and Mr. Ivanov's responsibilities have been expanded to include the coordination of the import of raw materials, including agricultural products.

More significantly, many of the foreign trade organizations in the Ministry of Foreign Trade will be transferred out of the Ministry of Foreign Trade and become attached to other Soviet ministries, enterprises or organizations. For example, Avtoexport will become attached to the Ministry of the Automobile Industry and Stankoimport will become attached to the Ministry of Machine Building.

While decisions are now being made as to which foreign trade organizations will remain with the Ministry of Foreign Trade and which will be assigned to other organizations, the general rule that is being followed is that foreign trade organizations that represent many different industries such as Prommashimport which represents the pulp and paper industry, the ministry of light industry and several others, and foreign trade organizations which buy or sell raw materials, agricultural products or energy products will remain with the Ministry of Foreign Trade.

While the formulation and coordination of Soviet foreign economic policy will now be centralized in the Foreign Economic Relations Commission, the Soviets have at the same time, to a great degree decentralized the execution and implementation of foreign economic policy. Over twenty ministries have now been authorized to maintain direct contact with foreign companies and to enter into economic contracts with them including:

1. Gosstab - USSR State Committee for Supplies
2. Gosagroprom - USSR State Agroindustrial Committee
3. GKNT - USSR State Committee for Science and Technology
4. Minmorflot - Ministry of Merchant Marine
5. Minrybkhov - Ministry of Fisheries
6. Goskomsport - USSR State Sports Committee
7. Mingeo - Ministry of Geology
8. GUGK - Main Administration for Customs
9. Goskomizdat - USSR State Publishing Committee
10. Minenergomash - Ministry for Power and Machine Industries
11. Mintyazhmash - Ministry of Heavy Machine Building Industries
12. Minelektrotekhprom - Ministry of Electrical Engineering Industry
13. Minavtoprom - Ministry of Automotive Industry
14. Minselkhoz mash - Ministry of Machine Building for Agriculture
15. Minpribor - Ministry for Instrument Making and Automation
16. Minstankoprom - Ministry for Machine-Tool Building Industries
17. Minkhim mash - Ministry of Chemical and Petroleum Machine Building
18. Minkhim prom - Ministry of Chemical Industry
19. Ministroi materialov - Ministry of Building Materials Industry
20. Minmedbioprom - Ministry of Medical and Biological Industries
21. Tsentrosoyuz - The Central Union of Consumers Cooperatives



In addition, approximately 70 enterprises and associations have been authorized to enter into direct contact with foreign companies including Avtovaz (Toljatti); Moskvich Plant (Moscow); Gaz (Gorky); Kamaz (Breznev); Zil (Moscow); Belavtomaz (Belorussia); tractor plants in Minsk, Vladimir, Lipetsk, Kharkov; 3 chemical plants; 7 petrochemical plants; Novocement (in Novorossiysk); The All-Union Cardio Center (Moscow); a refrigerator factory in Minsk; and 8 machine tool factories.

Mr. Malkevich informed us that "The Ministries and other entities granted the right to engage in export and import operations will conduct this activity on the principles of economic self-sufficiency, hard currency self-sufficiency and self financing."

The Soviets have made it clear that they are continuing to look at other ministries and organizations which might be allowed to deal directly in foreign economic relations.

Note that each Soviet organization entering into international contacts and contracts will be allowed to keep a "hard currency" account in Vneshtorgbank. They will be allowed to retain "profits" earned from hard currency sales to meet hard currency purchase requirements. Furthermore, they will be allowed to take advantage of hard currency credits for a 3-4 year period from Vneshtorgbank if required. The goal, however, will be to keep hard currency exports and imports more or less in balance.

One of the most significant changes which resulted from the decree of the Presidium of the Council of Ministers on August 19, 1986 was the authority for Soviet organizations dealing in Soviet foreign economic relations to enter into joint ventures both within the territory of the USSR and outside the USSR. Mr. Malkevich informed us that work was now underway to draw up the basic regulating guidelines for joint ventures and appropriate changes in the country's legislation are being prepared. However, it is clear that while the exact type of transaction will be negotiated between the parties, both equity and non-equity joint ventures will be allowed, profits can be repatriated after tax or reinvested in either commercial or social ventures inside or outside of the Soviet Union with tax incentives, the contribution of either party to the transaction can be in money, technology, know-how, services, machinery or equipment, and products, and if there is an equity joint venture, the foreign party will be allowed to own no more than 49% of the stock portfolio.

Finally, Mr. Malkevich informed us that "We feel that this restructuring will serve as a good basis for a further fundamental expansion of business cooperation between Soviet organizations and foreign partners including United States companies."

We believe the reforms in Soviet foreign economic relations are "revolutionary" and will provide real opportunities for a substantial expansion of trade for Council members. As more information becomes available, we will keep you informed.

In the meantime, we are planning to return to Moscow in the second half of October to meet again with Mr. Malkevich and his associates and have been requested to bring any joint venture proposals from our members that are available. If you are interested in a possible joint venture, please send us a 10-15 page proposal outlining what type of transaction you would like to pursue and we will make sure it is considered seriously during our next visit.

Best regards.

Very truly yours,

**Response Form**

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